# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 24, 2005**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECfURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM _____ TO _____**

**Commission file number 333-92383**

# CHARLES RIVER LABORATORIES INTERNATIONAL, INC.
(Exact Name of Registrant as specified in its Charter)

| **DELAWARE** | **06-1397316** |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

**251 BALLARDVALE STREET, WILMINGTON, MASSACHUSETTS 01887**
(Address of Principal Executive Offices) (Zip Code)

**978-658-6000**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 21, 2005, there were 72,322,299 shares of the registrant's common stock outstanding.

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**FORM 10-Q**
**For the Quarterly Period Ended September 24, 2005**
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**Special Note on Factors Affecting Future Results**

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and the future results of Charles River Laboratories International, Inc. (Charles River) that are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “anticipate,” “target,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “likely,” “may,” “designed,” “would,” “future,” “can,” “could” and similar expressions that are predictions of or indicate future events and trend or which do not relate to historical matters are intended to identify such forward-looking statements. You should not rely on forward looking statements because they are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 25, 2004 under the section entitled “Risks Related to Our Business and Industry,” the section of this Quarterly Report on Form 10-Q entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our press releases and other financial filings with the Securities and Exchange Commission. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.



**Part I. Financial Information**

**Item 1. Financial Statements**

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

**(dollars in thousands, except per share amounts)**

| | Three Months Ended | |
|---|---|---|
| | September 24, 2005 | September 25, 2004 |
| Net sales related to products | $ 85,372 | $ 81,657 |
| Net sales related to services | 188,566 | 94,369 |
| Total net sales | 273,938 | 176,026 |
| Costs and expenses | | |
| Cost of products sold | 47,377 | 44,452 |
| Cost of services provided | 119,768 | 62,177 |
| Selling, general and administrative | 42,978 | 24,821 |
| Amortization of intangibles | 14,321 | 1,202 |
| Operating income | 49,494 | 43,374 |
| Other income (expense) | | |
| Interest income | 982 | 849 |
| Interest expense | (4,784) | (2,073) |
| Other, net | (493) | (83) |
| Income before income taxes and minority interests | 45,199 | 42,067 |
| Provision for income taxes | 12,588 | 15,775 |
| Income before minority interests | 32,611 | 26,292 |
| Minority interests | (538) | (471) |
| Net income | $ 32,073 | $ 25,821 |
| Earnings per common share | | |
| Basic | $ 0.45 | $ 0.56 |
| Diluted | $ 0.44 | $ 0.51 |

See Notes to Condensed Consolidated Interim Financial Statements



**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

**(dollars in thousands, except per share amounts)**

| | Nine Months Ended | |
|---|---|---|
| | September 24, 2005 | September 25, 2004 |
| Net sales related to products | $ 274,068 | $ 256,369 |
| Net sales related to services | 557,005 | 272,487 |
| Total net sales | 831,073 | 528,856 |
| Costs and expenses | | |
| Cost of products sold | 147,654 | 136,875 |
| Cost of services provided | 360,229 | 179,135 |
| Selling, general and administrative | 135,445 | 82,161 |
| Amortization of intangibles | 43,002 | 3,591 |
| Operating income | 144,743 | 127,094 |

| | | |
|---|---|---|
| Other income (expense) | | |
| Interest income | 2,912 | 2,359 |
| Interest expense | (17,744) | (6,308) |
| Other, net | (977) | 44 |
| Income before income taxes and minority interests | 128,934 | 123,189 |
| Provision for income taxes | 35,908 | 51,985 |
| Income before minority interests | 93,026 | 71,204 |
| Minority interests | (1,445) | (1,489) |
| Net income | $ 91,581 | $ 69,715 |
| Earnings per common share | | |
| Basic | $ 1.33 | $ 1.51 |
| Diluted | $ 1.28 | $ 1.39 |

See Notes to Condensed Consolidated Interim Financial Statements



**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**(dollars in thousands, except per share amount)**

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 167,705 | $ 207,566 |
| Trade receivables, net | 210,155 | 201,794 |
| Inventories | 65,021 | 61,914 |
| Other current assets | 55,886 | 39,032 |
| Total current assets | 498,767 | 510,306 |
| Property, plant and equipment, net | 386,310 | 357,149 |
| Goodwill, net | 1,418,179 | 1,422,586 |
| Other intangibles, net | 216,030 | 256,294 |
| Deferred tax asset | 44,395 | 50,412 |
| Other assets | 25,714 | 30,088 |
| Total assets | $ 2,589,395 | $ 2,626,835 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligations | $ 80,555 | $ 80,865 |
| Accounts payable | 25,753 | 28,672 |
| Accrued compensation | 42,424 | 46,037 |
| Deferred income | 97,345 | 117,490 |
| Accrued liabilities | 42,605 | 51,722 |
| Other current liabilities | 29,568 | 24,329 |
| Total current liabilities | 318,250 | 349,115 |
| Long-term debt and capital lease obligations | 297,728 | 605,980 |
| Other long-term liabilities | 178,128 | 189,443 |
| Total liabilities | 794,106 | 1,144,538 |
| Commitments and contingencies | | |
| Minority interests | 9,641 | 9,792 |
| Shareholders' equity | | |
| Preferred stock, $0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, $0.01 par value; 120,000,000 shares authorized; 72,310,744 and 65,785,328 shares issued and outstanding at September 24, 2005 and December 25, 2004, respectively | 723 | 658 |
| Capital in excess of par value | 1,774,157 | 1,518,854 |
| Retained earnings (deficit) | 28,488 | (63,093) |
| Treasury stock, at cost, 66,175 shares at September 24, 2005 | (3,115) | — |
| Unearned compensation | (23,626) | (11,607) |
| Accumulated other comprehensive income | 9,021 | 27,693 |
| Total shareholders' equity | 1,785,648 | 1,472,505 |
| Total liabilities and shareholders' equity | $ 2,589,395 | $ 2,626,835 |

See Notes to Condensed Consolidated Interim Financial Statements

**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(dollars in thousands, except per share amount)**

| | Nine Months Ended | |
|---|---|---|
| | **September 24, 2005** | **September 25, 2004** |
| **Cash flows relating to operating activities** | | |
| Net income | $ 91,581 | $ 69,715 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 75,979 | 23,612 |
| Amortization of debt issuance costs and discounts | 1,677 | 987 |
| Amortization of premiums on marketable securities | 35 | 203 |
| Provision for doubtful accounts | (151) | 731 |
| Minority interests | 1,445 | 1,489 |
| Deferred income taxes | (4,823) | 12,103 |
| Tax benefit from exercises of employee stock options | 6,526 | 3,391 |
| Loss on disposal of property, plant, and equipment | 226 | 677 |
| Non-cash compensation | 12,692 | 1,779 |
| Changes in assets and liabilities: | | |
| Trade receivables | (13,037) | (16,364) |
| Inventories | (5,033) | (3,480) |
| Other current assets | (2,156) | 532 |
| Other assets | 1,473 | (5,263) |
| Accounts payable | (1,800) | (4,553) |
| Accrued compensation | (2,282) | 8,281 |
| Deferred income | (19,879) | 5,459 |
| Accrued liabilities | (5,504) | 3,152 |
| Other current liabilities | 14,276 | 7,514 |
| Other long-term liabilities | (110) | 199 |
| Net cash provided by operating activities | 151,135 | 110,164 |
| **Cash flows relating to investing activities** | | |
| Acquisition of businesses | (3,432) | (16,972) |
| Capital expenditures | (69,952) | (22,111) |
| Purchases of marketable securities | (2,637) | (14,858) |
| Proceeds from sale of marketable securities | 414 | 13,503 |
| Proceeds from sale of property, plant and equipment | 114 | 499 |
| Net cash used in investing activities | (75,493) | (39,939) |
| **Cash flows relating to financing activities** | | |
| Proceeds from long-term debt and revolving credit agreement | 27,100 | 94,000 |
| Payments on long-term debt, capital lease obligation and revolving credit agreement | (150,332) | (94,370) |
| Proceeds from exercises of employee stock options | 25,032 | 10,708 |
| Proceeds from exercise of warrants | 1,136 | — |
| Purchases of treasury shares | (3,115) | — |
| Dividends paid to minority interests | (1,400) | (2,112) |
| Payment of deferred financing costs | (725) | (100) |
| Net cash (used in) provided by financing activities | (102,304) | 8,126 |
| Effect of exchange rate changes on cash and cash equivalents | (13,199) | (1,276) |
| Net change in cash and cash equivalents | (39,861) | 77,075 |
| Cash and cash equivalents, beginning of period | 207,566 | 182,331 |
| **Cash and cash equivalents, end of period** | $ 167,705 | $ 259,406 |
| **Supplemental schedule of noncash investing and financing activities:** | | |
| Conversion of senior convertible debenture to common stock | $ 198,020 | $ — |

See Notes to Condensed Consolidated Interim Financial Statements



**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(dollars in thousands, except per share amount)**

## 1. Basis of Presentation

The condensed consolidated interim financial statements are unaudited, and certain information and footnote disclosures related thereto normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited financial statements and reflect all adjustments (consisting of normal recurring adjustments) considered necessary to state fairly the financial position and results of operations of Charles River Laboratories International, Inc. (the "Company"). The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 25, 2004.

Certain amounts in prior-year financial statements and related notes have been reclassified to conform with the current year presentation.

## 2. Business Acquisitions

On October 20, 2004, the Company's shareholders approved the merger agreement with Inveresk Research Group (Inveresk). The acquisition strengthened the Company's position as a leading global company providing essential preclinical and clinical drug development services and products. The strategic combination significantly expanded the Company's service portfolio and strengthened the Company's global footprint in the market for pharmaceutical research and development products and services. Under the terms of the merger agreement, Inveresk shareholders received 0.48 shares of the Company's common stock and $15.15 in cash for each share of Inveresk common stock they owned. The purchase price of $1,458,057 consisted of $841,042 representing the fair value of the Company's common stock of 18,451,996 shares issued, $582,391 of cash consideration, $30,350 representing the fair value

(dollars in thousands, except per share amount)

of the Company's stock options exchanged for Inveresk stock options and $4,274 of transaction costs incurred by the Company. The Company utilized approximately $161,229 of available cash and $500,000 of borrowings under its existing credit facility for the cash consideration paid to Inveresk shareholders and to pay off Inveresk's existing credit facility of $78,838. Refer to Note 6 for further information about this credit facility.

The purchase price associated with the Inveresk acquisition was as follows:

| | |
|---|---|
| Stock consideration | $ 841,042 |
| Cash consideration | 582,391 |
| Fair value of stock options exchange | 30,350 |
| Transaction costs | 4,274 |
| Purchase price | 1,458,057 |
| Cash acquired | (41,726) |
| Purchase price, net of cash acquired | $ 1,416,331 |

The Company's purchase price allocation has been finalized. An outside appraisal of the intangible assets acquired and valuation of certain equipment has also been finalized.





**2. Business Acquisitions (Continued)**

The purchase price allocation associated with the Inveresk acquisition was as follows:

| | |
|---|---|
| Current assets | $ 98,768 |
| Property, plant and equipment | 126,746 |
| Current liabilities | (198,418) |
| Non-current liabilities | (147,505) |
| Goodwill and other intangibles acquired | 1,536,740 |
| Total purchase price allocation | $ 1,416,331 |

The breakout of goodwill and other intangibles acquired associated with the Inveresk acquisition was as follows:

| | | Weighted average amortization life (years) |
|---|---|---|
| Customer relationships | $ 167,700 | 21 |
| Backlog | 63,700 | 3 |
| Trademarks and trade names | 700 | 1 |
| Goodwill | 1,304,640 | — |
| Total goodwill and other intangibles | $ 1,536,740 | |

The following selected unaudited pro forma consolidated results of operations are presented as if the acquisition had occurred as of the beginning of the period immediately preceding the year of acquisition, after giving effect to certain adjustments for amortization of intangibles and related income tax effects. The pro forma data is for informational purposes only and does not necessarily reflect the results of operations had the companies operated as one during the periods reported. No effect has been given in the pro forma data for synergies, if any, that may have been realized through the acquisition.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 (as reported) | September 25, 2004 (pro forma) | September 24, 2005 (as reported) | September 25, 2004 (pro forma) |
| Net sales | $ 273,938 | $ 255,988 | $ 831,073 | $ 763,169 |
| Operating income | 49,494 | 41,750 | 144,743 | 121,739 |
| Net income | 32,073 | 25,307 | 91,581 | 70,181 |
| Earnings per common share | | | | |
| Basic | $ 0.45 | $ 0.41 | $ 1.33 | $ 1.15 |
| Diluted | $ 0.44 | $ 0.39 | $ 1.28 | $ 1.08 |

Refer to Note 6 for further discussion of the method of computation of earnings per share.

**(dollars in thousands, except per share amount)**

**3. Supplemental Balance Sheet Information**

The composition of trade receivables is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Customer receivables | $ 155,620 | $ 155,549 |
| Unbilled revenue | 57,045 | 50,082 |
| Total | 212,665 | 205,631 |
| Less allowance for doubtful accounts | (2,510) | (3,837) |
| Net trade receivables | $ 210,155 | $ 201,794 |

The composition of inventories is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Raw materials and supplies | $ 11,066 | $ 9,393 |
| Work in process | 4,057 | 3,431 |
| Finished products | 49,898 | 49,090 |
| Inventories | $ 65,021 | $ 61,914 |

The composition of other current assets is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Prepaid income tax | $ 22,417 | $ 8,551 |
| Prepaid assets | 18,989 | 16,045 |
| Deferred tax asset | 10,632 | 10,675 |
| Restricted cash | 2,305 | 3,527 |
| Marketable securities | 1,543 | 234 |
| Other current assets | $ 55,886 | $ 39,032 |





**3. Supplemental Balance Sheet Information (Continued)**

The composition of net property, plant and equipment is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Land | $ 15,896 | $ 16,196 |
| Buildings | 303,942 | 282,733 |
| Machinery and equipment | 242,407 | 234,043 |
| Leasehold improvements | 20,705 | 19,926 |
| Furniture and fixtures | 7,199 | 6,401 |
| Vehicles | 4,539 | 4,547 |
| Construction in progress | 56,987 | 37,711 |
| Property, plant and equipment | 651,675 | 601,557 |
| Less accumulated depreciation | (265,365) | (244,408) |
| Net property, plant and equipment | $ 386,310 | $ 357,149 |

Depreciation expense for the nine months ended September 24, 2005 and September 25, 2004 was $32,977 and $20,021, respectively.

The composition of other assets is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Cash surrender value of life insurance policies | $ 7,426 | $ 7,391 |
| Deferred financing costs | 6,672 | 10,454 |
| Long-term marketable securities | 5,515 | 4,345 |
| Pension asset | 1,299 | 3,801 |
| Other assets | 4,802 | 4,097 |
| Other assets | $ 25,714 | $ 30,088 |

The composition of other current liabilities is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Accrued income taxes | $ 25,710 | $ 18,027 |
| Accrued interest | 3,858 | 6,302 |

(dollars in thousands, except per share amount)

| | | |
|---|---|---|
| Other current liabilities | $ 29,568 | $ 24,329 |





**3. Supplemental Balance Sheet Information (Continued)**

The composition of other long-term liabilities is as follows:

| | September 24, 2005 | December 25, 2004 |
|---|---|---|
| Deferred tax liability | $ 87,189 | $ 93,143 |
| Long-term pension liability | 57,558 | 63,783 |
| Accrued Executive Supplemental Life Insurance Retirement Plan | 17,587 | 16,326 |
| Other long-term liabilities | 15,794 | 16,191 |
| Other long-term liabilities | $ 178,128 | $ 189,443 |

**4. Goodwill and Other Intangible Assets**

The following table displays goodwill and other intangible assets not subject to amortization and other intangible assets that continue to be subject to amortization:

| | September 24, 2005 | | December 25, 2004 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Goodwill | $ 1,430,853 | $ (12,674) | $ 1,435,414 | $ (12,828) |
| Other intangible assets not subject to amortization: | | | | |
| Research models | 3,438 | — | 3,438 | — |
| Other intangible assets subject to amortization: | | | | |
| Backlog | 65,355 | (40,054) | 65,368 | (11,040) |
| Customer relationships | 202,401 | (22,441) | 202,956 | (9,823) |
| Customer contracts | 1,655 | (1,541) | 1,655 | (1,429) |
| Trademarks and trade names | 3,917 | (2,055) | 3,939 | (1,377) |
| Standard operating procedures | 1,351 | (985) | 1,358 | (690) |
| Other identifiable intangible assets | 9,537 | (4,548) | 6,158 | (4,219) |
| Total other intangible assets | 287,654 | (71,624) | 284,872 | (28,578) |





**4. Goodwill and Other Intangible Assets (Continued)**

The changes in the gross carrying amount and accumulated amortization of goodwill are as follows:

| | Balance at December 25, 2004 | Adjustments to Goodwill | | Balance at September 24, 2005 |
|---|---|---|---|---|
| | | Acquisitions | Other | |
| **Research Models and Services** | | | | |
| Gross carrying amount | $ 19,921 | $ | $ (643) | $ 19,278 |
| Accumulated amortization | (4,900) | — | 154 | (4,746) |
| **Preclinical Services** | | | | |
| Gross carrying amount | 1,036,599 | (1,167) | (2,026) | 1,033,406 |
| Accumulated amortization | (7,928) | — | — | (7,928) |
| **Clinical Services** | | | | |
| Gross carrying amount | 378,894 | (725) | — | 378,169 |
| Accumulated amortization | — | — | — | — |
| **Total** | | | | |
| Gross carrying amount | $ 1,435,414 | $ (1,892) | $ (2,669) | $ 1,430,853 |
| Accumulated amortization | (12,828) | — | 154 | (12,674) |

**(dollars in thousands, except per share amount)**

**5. Long-Term Debt**

On July 27, 2005 the Company entered into a credit agreement ($50,000 credit agreement). The $50,000 credit agreement provides for a $50,000 term loan facility which matures on July 27, 2007 and can be extended for an additional 7 years. The interest rates applicable to loans under the $50,000 credit agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½ %) or the LIBOR rate plus 0.75%. The $50,000 credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. A debt covenant was waived through 2005. Otherwise, the Company was in compliance with its debt covenants as of September 24, 2005. If the Company chooses to extend the term loan for an additional 7 years, the applicable interest rate after the extension date is equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½ %) plus 0.25% or the LIBOR rate plus 1.25%.

During the second quarter of 2005, the Company converted all of its $185,000 3.5% senior convertible debentures due February 1, 2022 into 4,759,424 shares of common stock. The Company recorded additional equity of $198,020 due to the conversion, which represented the book value of the debentures ($185,000), deferred tax liability associated with the debentures ($14,497) and accrued interest ($1,354), partially offset by the deferred financing costs ($2,831).

Effective May 6, 2005, the Company amended its credit agreement (the $550,000 credit agreement), entered into during the fourth quarter of 2004, to reduce the interest rate by 0.50% and modify certain restrictive covenants. The $550,000 credit agreement provides for a $400,000 term loan facility and a $150,000 revolving facility. The term loan facility matures in 20 equal, quarterly installments with the first installment payable December 31, 2004 and the last installment due September 30, 2009. The revolver





facility matures on October 15, 2009 and requires no scheduled prepayment before that date. The interest rates applicable to term loans and revolving loans under the credit agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½%) or the adjusted LIBOR rate plus an interest rate margin based upon the Company's leverage ratio which was 1% as of June 25, 2005. Based on the leverage ratio of the Company, the margin range for LIBOR based loans is 0.75% to 1.25%. The credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. A debt covenant was waived through 2005. Otherwise, the Company was in compliance with its debt covenants as of September 24, 2005. The Company had $4,988 outstanding under letters of credit as of September 24, 2005 and December 25, 2004, respectively.

**6. Shareholders' Equity**

***Earnings per Share***

Basic earnings per share for the three and nine months ended September 24, 2005 and September 25, 2004 were computed by dividing earnings available to common shareholders for these periods by the weighted average number of common shares outstanding in the respective periods. The weighted average number of common shares outstanding in the three and nine months ended September 24, 2005 and September 25, 2004 have been adjusted to include common stock equivalents for the purpose of calculating diluted earnings per share for this period.

Options to purchase 15,100 and 28,800 shares were outstanding in each of the respective three months ended September 24, 2005 and September 25, 2004 but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive. Options to purchase 21,450 and 34,200 shares were outstanding in each of the respective nine months ended September 24, 2005 and September 25, 2004 but were not included in computing diluted earnings per share because their inclusion would have been anti-dilutive.

Basic weighted average shares outstanding for the three and nine months ended September 24, 2005 and September 25, 2004 excluded the weighted average impact of 544,432 and 58,241 shares, respectively, of non-vested fixed restricted stock awards.





**6. Shareholders' Equity (Continued)**

The following table illustrates the reconciliation of the numerator and denominator of the basic and diluted earnings per share computations:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| **Numerator:** | | | | |
| Net income for purposes of calculating earnings per share | $ 32,073 | $ 25,821 | $ 91,581 | $ 69,715 |
| After-tax equivalent of interest expense on 3.5% senior convertible debentures | — | 1,012 | 1,463 | 3,035 |
| Income for purposes of calculating diluted earnings per share | $ 32,073 | $ 26,833 | $ 93,044 | $ 72,750 |

**(dollars in thousands, except per share amount)**

| | | | | |
|---|---|---|---|---|
| **Denominator:** | | | | |
| Weighted average shares outstanding—Basic | 71,373,628 | 46,160,504 | 68,995,945 | 46,020,766 |
| Effect of dilutive securities: | | | | |
| 3.5% senior convertible debentures | — | 4,759,455 | 1,987,465 | 4,759,455 |
| Stock options and restricted stock | 1,677,113 | 1,293,848 | 1,623,966 | 1,277,632 |
| Warrants | 322,219 | 338,810 | 335,195 | 337,751 |
| Weighted average shares outstanding—Diluted | 73,372,960 | 52,552,617 | 72,942,571 | 52,395,604 |
| Basic earnings per share | $ 0.45 | $ 0.56 | $ 1.33 | $ 1.51 |
| Diluted earnings per share | $ 0.44 | $ 0.51 | $ 1.28 | $ 1.39 |

***Treasury Shares***

On July 27, 2005, the Board of Directors authorized a share repurchase program to acquire up to $50,000 of common stock. In order to facilitate these share repurchases, the Company has entered into a Rule 10b5-1 Purchase Plan. During the three months ended September 24, 2005, the Company repurchased 56,000 shares of common stock for approximately $2,603. The timing and amount of any future repurchases will depend on market conditions and corporate considerations. Additionally, the Company's 2000 Incentive Plan permits the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. Accordingly, through September 24, 2005, the Company acquired 10,175 shares as a result of such withholdings. On October 26, 2005, the Board of Directors authorized increasing the share repurchase program by $50,000 to a total of $100,000 of common stock.





**6. Shareholders' Equity (Continued)**

***Comprehensive Income***

The components of comprehensive income (net of tax) are set forth below:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Net income | $ 32,073 | $ 25,821 | $ 91,581 | $ 69,715 |
| Foreign currency translation adjustment | 6,092 | 2,273 | (19,077) | 694 |
| Net unrealized gain on hedging contracts | 232 | — | 392 | — |
| Net unrealized gain (loss) on marketable securities | (42) | 37 | 13 | (87) |
| Comprehensive income | $ 38,355 | $ 28,131 | $ 72,909 | $ 70,322 |

**7. Income Taxes**

The following table provides a reconciliation of the provision for income taxes on the condensed consolidated statement of income:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Income before income taxes and minority interest | $ 45,199 | $ 42,067 | $ 128,934 | $ 123,189 |
| Effective tax rate | 27.85% | 37.5% | 27.85% | 37.5% |
| Provision at effective tax rate | $ 12,588 | $ 15,775 | $ 35,908 | $ 46,196 |
| Effect of: | | | | |
| Deferred tax asset write-off | — | — | — | 7,900 |
| Valuation allowance release | — | — | — | (2,111) |
| Provision for income taxes | $ 12,588 | $ 15,775 | $ 35,908 | $ 51,985 |

On October 22, 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. The Act creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the United States at an effective tax rate of 5.25%. The Company has determined that in the fourth quarter of 2005, it may repatriate up to $150,000 of its accumulated income earned outside the United States in a distribution that qualifies for the reduced tax rate under the Act. The Company estimates that it would recognize a one-time tax benefit between $15,000 and $20,000 as a result of this distribution. This repatriation is subject to the formal approval of the Company's Domestic Reinvestment Plan by our Chief Executive Officer and ratification by our Board of Directors.

In the first quarter of 2004, the Company reorganized its European operations. The purpose of the reorganization was to streamline the legal entity structure in order to improve operating efficiency and cash management, facilitate acquisitions and provide tax benefits. The reorganization, which did not involve reductions of personnel or facility closures, resulted in a one-time, non-cash charge to earnings in the first quarter of 2004 of $7,900 due primarily to the write-off of a deferred tax asset. In light of this reorganization, the Company reassessed the valuation allowance associated with its foreign tax credit carryforwards. As a result of this reassessment, $2,111 of the valuation allowance was released and recorded as a tax benefit.

(dollars in thousands, except per share amount)

**8. Employee Benefits**

The following table provides the components of net periodic benefit cost for the Company's defined benefit plans:

***Pension Benefits***

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Service cost | $ 1,359 | $ 793 | $ 4,146 | $ 2,419 |
| Interest cost | 2,210 | 650 | 6,745 | 1,950 |
| Expected return on plan assets | (2,018) | (836) | (6,140) | (2,507) |
| Amortization of transition obligation | — | 1 | — | 3 |
| Amortization of prior service cost | (128) | 72 | (402) | 216 |
| Amortization of net loss | 156 | 19 | 478 | 57 |
| Net periodic benefit cost | $ 1,579 | $ 699 | $ 4,827 | $ 2,138 |
| Company contributions | $ 3,028 | $ 215 | $ 5,507 | $ 598 |

***Supplemental Retirement Benefits***

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Service cost | $ 130 | $ 71 | $ 355 | $ 213 |
| Interest cost | 262 | 208 | 767 | 624 |
| Amortization of prior service cost | (41) | (41) | (121) | (122) |
| Amortization of net loss | 233 | 146 | 660 | 437 |
| Net periodic benefit cost | $ 584 | $ 384 | $ 1,661 | $ 1,152 |

**9. Stock-Based Compensation Plans**

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the presentation of certain pro forma information as if the Company had accounted for its employee stock options under the fair value method. For purposes of this disclosure, the fair value of the fixed option grants was estimated using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected life of the options. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. However, for each period presented, management believes the Black-Scholes model is the most appropriate option valuation model for the Company's options.





**9. Stock-Based Compensation Plans (Continued)**

Had compensation expense for the Company's option grants been determined consistent with the provision of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123," the Company's net income would have been reduced to the pro forma amounts indicated below:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Reported net income | $ 32,073 | $ 25,821 | $ 91,581 | $ 69,715 |
| Add: Stock-based employee compensation included in reported net income, net of tax | 2,574 | 119 | 9,116 | 1,112 |
| Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax | (6,627) | (4,263) | (23,049) | (13,730) |
| Pro forma net income | $ 28,020 | $ 21,677 | $ 77,648 | $ 57,097 |
| Reported basic earnings per share | $ 0.45 | $ 0.56 | $ 1.33 | $ 1.51 |
| Pro forma basic earnings per share | $ 0.39 | $ 0.47 | $ 1.13 | $ 1.24 |
| Reported diluted earnings per share | $ 0.44 | $ 0.51 | $ 1.28 | $ 1.39 |
| Pro forma diluted earnings per share | $ 0.38 | $ 0.43 | $ 1.08 | $ 1.15 |

***Restricted Common Stock and Performance Based Plans***

Under the Company's 2000 Incentive Plan, restricted common stock of the Company may be granted at no cost to officers and key employees. Holders of restricted common stock are entitled to cash dividends, if declared, and to vote their respective shares. Restrictions limit the sale or transfer of these shares until they vest, which is typically over a three-year period. Upon issuance of restricted stock awards under the plan, unearned compensation equivalent to the market value at the date of grant is charged to shareholders' equity and subsequently amortized to expense over the vesting period. During the nine months ended September 24, 2005, the Company granted 527,230 restricted stock awards and recorded $25,145 as unearned compensation in shareholders' equity. During the three months ended September 24, 2005 and September 25, 2004, the Company recorded $2,215 and $400, respectively, and during the nine months ended September 24, 2005 and September 25, 2004, the Company recorded $5,470 and $1,327, respectively, in compensation expense for the vesting of restricted stock awards.

The Company will accrue compensation expense for the performance-based management incentive program (Mid-Term Incentive (MTI) Program) based on achieving certain financial targets in 2006. The expense will be recognized over the period the participating employees are required to be employed by the Company. During the nine months ended September 24, 2005 and September 25, 2004, the Company recorded $115 and $897, respectively, as compensation expense of which $58 and $451, respectively, was recorded as capital in excess of par value and $57 and $446, respectively, was recorded as accrued compensation. In February 2005, the Compensation Committee of the Board of Directors determined that it would not make any future awards under the MTI Program.





**10. Commitments and Contingencies**

Various lawsuits, claims and proceedings of a nature considered normal to its business are pending against the Company. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

**11. Business Segment Information**

The following table presents sales to unaffiliated customers and other financial information by product line segment.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Research Models and Services | | | | |
| Net sales | $ 118,882 | $ 118,089 | $ 377,565 | $ 357,651 |
| Gross margin | 50,020 | 50,897 | 164,361 | 157,945 |
| Operating income | 36,713 | 38,043 | 122,071 | 117,835 |
| Depreciation and amortization | 5,024 | 4,507 | 14,800 | 13,112 |
| Capital expenditures | 5,584 | 6,970 | 17,375 | 15,365 |
| Preclinical Services | | | | |
| Net sales | $ 122,661 | $ 57,937 | $ 355,840 | $ 171,205 |
| Gross margin | 44,970 | 18,500 | 126,120 | 54,901 |
| Operating income | 19,245 | 9,836 | 49,478 | 28,807 |
| Depreciation and amortization | 16,491 | 3,572 | 50,080 | 10,500 |
| Capital expenditures | 40,023 | 3,274 | 52,222 | 6,746 |
| Clinical Services | | | | |
| Net sales | $ 32,395 | $ — | $ 97,668 | $ — |
| Gross margin | 11,803 | — | 32,709 | — |
| Operating income | 3,072 | — | 5,853 | — |
| Depreciation and amortization | 3,681 | — | 11,099 | — |
| Capital expenditures | 96 | — | 355 | — |

A reconciliation of segment operating income to consolidated operating income is as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Total segment operating income | $ 59,030 | $ 47,879 | $ 177,402 | $ 146,642 |
| Unallocated corporate overhead | (9,536) | (4,505) | (32,659) | (19,548) |
| Consolidated operating income | $ 49,494 | $ 43,374 | $ 144,743 | $ 127,094 |



**CHARLES RIVER LABORATORIES INTERNATIONAL, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**
**(dollars in thousands, except per share amount)**

**(dollars in thousands, except per share amount)**

**11. Business Segment Information (Continued)**

A summary of unallocated corporate overhead consists of the following:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 24, 2005 | September 25, 2004 | September 24, 2005 | September 25, 2004 |
| Restricted stock and performance based compensation expense | $ 3,605 | $ (18) | $ 12,692 | $ 2,225 |
| U.S. pension expense | 1,366 | 871 | 4,051 | 2,612 |
| Audit, tax and related expenses | 844 | 746 | 2,197 | 2,892 |
| Executive officers' salary | 461 | 396 | 1,383 | 1,195 |
| Other general unallocated corporate expenses | 3,260 | 2,510 | 12,336 | 10,624 |
| Unallocated corporate overhead | $ 9,536 | $ 4,505 | $ 32,659 | $ 19,548 |

Other general unallocated corporate expenses consist of various departmental costs including corporate accounting, legal and investor relations.

**12. Recently Issued Accounting Standards**

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Shared-Based Payment," which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. This revised standard will be effective for the Company for the first quarter of 2006.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on the Company's result of operations, although it will have no impact on the Company's overall financial position. The impact of the modified prospective adoption of SFAS No. 123(R) cannot be estimated at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share.

**13. Subsequent Events**

As part of the initiative to improve overall operating efficiency within the Company's Interventional and Surgical Services (ISS) Preclinical business, on October 25, 2005, the officers of the Company committed to close the Preclinical Services Wisconsin location and consolidate the ISS operations. The closure is expected to result in a one-time charge of approximately $6,200 which will be recorded in the fourth quarter of 2005. The charge consists of an impairment charge of approximately $6,100 relating to intangibles and property as well as a cash severance charge of approximately $100.





**13. Subsequent Events (Continued)**

Additional severance related expenses of approximately $400 are expected to be recognized during 2006. The tax benefit is approximately $1,700.

Additionally, at the same time, as part of our initiative to improve overall operating efficiency mainly within the Company's Clinical Services business during the fourth quarter, the officers of the Company concluded that the Company will record an impairment with respect to certain lease obligations as well as severance costs related to headcount reductions**.** The charges are expected to result in a one-time charge of $2,100 which will be recorded in the fourth quarter of 2005. The charge of $2,100 consists of an impairment charge of approximately $1,600 and other cash charges of $500. The tax benefit is approximately $600.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes.

**Overview**

We are a leading global provider of solutions that advance the drug discovery and development process. These solutions include research models and outsourced preclinical and clinical services, and are designed to enable our clients to bring drugs to market faster and more efficiently. Our products and services are organized into three categories spanning every step of the drug development pipeline: Research Models and Services (RMS), Preclinical Services, and Clinical Services. We have been in business for more than 55 years, and our customer base includes all of the major pharmaceutical companies and many biotechnology companies, government agencies, leading hospitals and academic institutions.

Our sales growth during the third quarter of 2005 was due primarily to the acquisition of Inveresk during the fourth quarter of 2004, while our overall results of operation have been further enhanced by our strong unified brand name, the implementation of best practices derived from the combination of Charles River and Inveresk, and our achievement of the previously publicized cost savings goal. During the third quarter of 2005, Preclinical Services

represented 44.8% of total net sales, while RMS and Clinical Services represented 43.4% and 11.8%, respectively. During the third quarter, our Preclinical Services business segment continued to experience increased demand for our toxicology services, although sales growth for this segment was negatively impacted by continued softness for our interventional and surgical services. In anticipation of the continued demand we expect for certain of our Preclinical Services, during the third quarter we purchased a new 400,000 square foot facility in Massachusetts, which we expect to phase into production beginning in mid-2006. Our Preclinical Services business continues to evaluate options for facilities expansion in the western United States. Sales in our RMS segment increased slightly during the third quarter of 2005 over the third quarter of 2004, but was impacted by delayed shipments of our large research models, reduced demand for our transgenics services in the United States, increased European seasonality and customer consolidation mainly in France. The reduced demand for transgenics services we have experienced during fiscal 2005 is expected to continue through foreseeable periods.

As part of the initiative to improve overall operating efficiency within our Interventional and Surgical Services (ISS) Preclinical business, on October 25, 2005, we committed to close the Preclinical Services Wisconsin location and consolidate our ISS operations. The closure is expected to result in a one-time charge of approximately $6.2 million which will be recorded in the fourth quarter of 2005. Additionally, at the same time, as part of our initiative to improve overall operating efficiency mainly within our Clinical Services business during the fourth quarter, we concluded that we will record an impairment with respect to certain lease obligations as well as severance costs related to headcount reductions**.** The charges are expected to result in a one-time charge of $2.1 million which will be recorded in the fourth quarter of 2005.

Total net sales in the third quarter of 2005 were $273.9 million, an increase of 55.6% over the same period last year. The sales increase was due to the acquisition of Inveresk, solid customer demand and increased pricing. Our gross margin decreased to 39.0% of net sales, compared to 39.4% of net sales for the same period last year due to a decline in the RMS gross margin rate and the addition of more Preclinical and Clinical sales to the sales mix. The RMS gross margin rate declined mainly due to the impact of lower than anticipated sales growth in transgenic services in the United States and European Research models. Operating income was $49.5 million, an increase of $6.1 million, or 14.1%, compared to $43.4 million for the same period last year. The operating margin was 18.1%, compared to 24.6% for the same period last year. Operating income was unfavorably impacted by charges related to the acquisition of Inveresk, including amortization of intangibles of $13.2 million and stock based compensation of



$1.3 million. Net income in the third quarter of 2005 was $32.1 million, compared to $25.8 million in the same period last year. Diluted earnings per share for the third quarter of 2005 was $0.44, compared to $0.51 in the same period last year. The unfavorable impact of amortization associated with the acquisition of Inveresk ($0.12) and Inveresk related stock based compensation ($0.01) reduced diluted earnings per share by $0.13 in the third quarter of 2005.

On a year to date basis ending September 24, 2005, total net sales were $831.1 million, an increase of 57.1% over the same period last year. Our gross margin decreased to 38.9% of total net sales, compared to 40.2% of total net sales for the same period last year. Operating income on a year to date basis increased 13.9% over last year. Net income on a year to date basis was $91.6 million, compared to $69.7 million for the same period last year. Diluted earnings per share on a year to date basis were $1.28, compared to $1.39 in the same period last year. The unfavorable impact of amortization associated with the acquisition of Inveresk ($0.36) and Inveresk related stock based compensation ($0.06) reduced earnings per share by $0.42 on a year to date basis. In the first quarter of 2004, an unfavorable deferred tax adjustment related to the European reorganization ($0.15), partially offset by a favorable reversal of the tax valuation allowance ($0.04) decreased diluted earnings per share by $0.11.

Our RMS segment represented 43.4% of net sales in the third quarter of 2005. Net sales for this segment increased 0.7% over the same period last year. The sales growth was impacted by reduced large model shipments, reduced requirements for transgenic services in North America and increased European seasonality and customer consolidation in our models business in France. Foreign currency translation was essentially flat to last year. The RMS gross margin rate declined to 42.1% in the third quarter of 2005 from 43.1% last year mainly due to increased seasonality and customer consolidation in our models business mainly in Europe and reduced requirements for transgenic services in North America. Operating income decreased to 30.9% of net sales, compared to 32.2% of net sales for the same period last year.

Sales on a year to date basis for our RMS business segment increased 5.6% over the same period last year. The net sales increase drove an increase in operating income. Operating income was $122.1 million, an increase of $4.3 million, or 3.6%, from the same period last year. Operating income as a percent of net sales decreased to 32.3% compared to 32.9% for last year.

Our Preclinical Services segment represented 44.8% of net sales in the third quarter of 2005. Sales for this segment increased 111.7% over the same period last year. Our sales results were favorably impacted by the acquisition of Inveresk. Foreign currency translation had no impact on the net sales gain. Our Preclinical gross margin increased to 36.7% for the third quarter of 2005 compared to 31.9% in 2004, due mainly to improved facility utilization and a favorable mix of studies. We experienced favorable market conditions as demand for toxicology services remained strong, partially offset by reduced market demand for our interventional and surgical services. We continue to see improving levels of customer demand in our toxicology services and a positive impact from the increase of specialty toxicology.

Sales on a year to date basis for our Preclinical Services segment increased 107.8% over the same period last year. Operating income decreased to 13.9% of net sales, compared to 16.8% for the first nine months of 2004 due to the amortization of intangibles relating to the Inveresk acquisition.

Our Clinical Services segment represented 11.8% of net sales in the third quarter of 2005. Gross Margin was 36.4% of net sales for the third quarter of 2005. Operating income was 9.5% of net sales for the third quarter of 2005. We acquired the clinical service business with the acquisition of Inveresk during the fourth quarter of 2004.

**Three Months Ended September 24, 2005 Compared to Three Months Ended September 25, 2004**

***Net Sales.*** Net sales for the three months ended September 24, 2005 were $273.9 million, an increase of $97.9 million, or 55.6%, from $176.0 million for the three months ended September 25, 2004.



*Research Models and Services.* For the three months ended September 24, 2005, net sales for our RMS segment were $118.9 million, an increase of $0.8 million, or 0.7%, from $118.1 million for the three months ended September 25, 2004. RMS global prices increased in a range up to 5% with the weighted average increase approximately 3%. Volume for the models and services declined by approximately 2%. Foreign currency translation essentially had no impact on our net sales growth. The RMS sales increase was driven by higher spending on basic research by pharmaceutical and biotechnology

companies, which drove greater demand for our products and services, partially offset by the timing of our large model shipments, lower transgenic sales in the United States and increased European seasonality of the models business mainly in France.

*Preclinical Services.* For the three months ended September 24, 2005, net sales for our Preclinical Services segment were $122.7 million, an increase of $64.8 million, or 111.7%, compared to $57.9 million for the three months ended September 25, 2004. The increase was primarily due to the acquisition of Inveresk in October 2004 and to increased customer demand for toxicology services, partially offset by reduced demand for our interventional and surgical services. Our preclinical services business benefited from increased customer demand, reflecting increased drug development efforts and customers outsourcing their preclinical service needs. Foreign currency essentially had no impact on the sales growth.

*Clinical Services.* In the fourth quarter of 2004, we entered the clinical services business with the acquisition of Inveresk. For the three months ended September 24, 2005, net sales for our Clinical Services segment were $32.4 million.

***Cost of Products Sold and Services Provided.*** Cost of products sold and services provided for the three months ended September 24, 2005 was $167.1 million, an increase of $60.5 million, or 56.8%, from $106.6 million for the three months ended September 25, 2004. Cost of products sold and services provided for the three months ended September 24, 2005 was 61.0% of net sales, compared to 60.6% for the three months ended September 25, 2004 due to the mix of more Preclinical and Clinical sales and increased costs in the RMS segment.

*Research Models and Services.* Cost of products sold and services provided for RMS for the three months ended September 24, 2005 was $68.9 million, an increase of $1.7 million, or 2.5%, compared to $67.2 million for the three months ended September 25, 2004. Cost of products sold and services provided increased as a percent of net sales to 57.9% for the three months ended September 24, 2005, compared to 56.9% for the three months ended September 25, 2004. The increased sales impact of seasonality on the models business mainly in Europe and lower transgenic sales in the United States along with higher fuel costs adversely effected the cost of products sold and services provided as a percent of sales.

*Preclinical Services.* Cost of products sold and services provided for the Preclinical Services segment for the three months ended September 24, 2005 was $77.7 million, an increase of $38.3 million, or 97.0%, compared to $39.4 million for the three months ended September 25, 2004. Cost of products sold and services provided as a percentage of net sales was 63.3% for the three months ended September 24, 2005, compared to 68.1% for the three months ended September 25, 2004. The decrease in cost of products sold and services provided as a percentage of net sales was primarily due to improved capacity utilization resulting from the increased sales of services.

*Clinical Services.* Cost of products sold and services provided for the Clinical Services segment for the three months ended September 24, 2005 was $20.6 million. Cost of products sold and services provided as a percentage of net sales was 63.6%.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses for the three months ended September 24, 2005 were $43.0 million, an increase of $18.2 million, or 73.2%, from $24.8 million for the three months ended September 25, 2004. Selling, general and administrative expenses for the three months ended September 24, 2005 were 15.7% of net sales compared to 14.1% of net sales



for the three months ended September 25, 2004. The increase was due primarily to compensation expense recorded for stock awards and the compensation charge recorded for Inveresk's stock options.

*Research Models and Services.* Selling, general and administrative expenses for RMS for the three months ended September 24, 2005 were $13.2 million, an increase of $0.4 million, or 3.2%, compared to $12.8 million for the three months ended September 25, 2004. Selling, general and administrative expenses increased slightly as a percentage of sales to 11.1% for the three months ended September 24, 2005 from 10.8% for the three months ended September 25, 2004.

*Preclinical Services.* Selling, general and administrative expenses for the Preclinical Services segment for the three months ended September 24, 2005 were $14.5 million, an increase of $7.0 million, or 92.7%, compared to $7.5 million for the three months ended September 25, 2004 due mainly to the addition of Inveresk. Selling, general and administrative expenses for the three months ended September 24, 2005 decreased to 11.8% of net sales, compared to 13.0% of net sales for the three months ended September 25, 2004 due to greater economies of scale.

*Clinical Services.* Selling, general and administrative expenses for the Clinical Services segment for the three months ended September 24, 2005 were $5.8 million. Selling, general and administrative expenses for the Clinical Services segment were 17.8% of net sales.

*Unallocated Corporate Overhead.* Unallocated corporate overhead, which consists of various corporate expenses including those associated with pension, executive salaries, stock based compensation and departments such as corporate accounting, legal and investor relations, was $9.5 million for the three months ended September 24, 2005, compared to $4.5 million for the three months ended September 25, 2004. The increase in unallocated corporate overhead for the three months ended September 24, 2005 was due primarily to increased restricted stock expense and stock-based compensation relating to the acquisition of Inveresk.

***Amortization of Other Intangibles.*** Amortization of other intangibles for the three months ended September 24, 2005 was $14.3 million, an increase of $13.1 million, from $1.2 million for the three months ended September 25, 2004. The increased amortization was due to the acquisition of Inveresk.

*Preclinical Services.* For the three months ended September 24, 2005, amortization of other intangibles for our Preclinical Services segment was $11.3 million, an increase of $10.1 million compared to the three months ended September 25, 2004. The increase in amortization of other intangibles was related to the acquisition of Inveresk.

*Clinical Services.* For the three months ended September 24, 2005, amortization of other intangibles for our Clinical Services segment was $3.0 million, related to the acquisition of Inveresk.



***Operating Income.*** Operating income for the three months ended September 24, 2005 was $49.5 million, an increase of $6.1 million, or 14.1%, from $43.4 million for the three months ended September 25, 2004. Operating income for the three months ended September 24, 2005 was 18.1% of net sales, compared to 24.6% of net sales for the three months ended September 25, 2004. The decrease as a percent of sales was due primarily to Inveresk related amortization of $13.2 million and Inveresk stock based compensation charge of $1.3 million.

*Research Models and Services.* For the three months ended September 24, 2005, operating income for our RMS segment was $36.7 million, a decrease of $1.3 million, or 3.5%, from $38.0 million for the three months ended September 25, 2004. Operating income as a percentage of net sales for the three months ended September 24, 2005 was 30.9%, compared to 32.2% for the three months ended September 25, 2004. The decrease in the operating income as a percentage of net sales was primarily due to higher cost of products sold and services provided.

*Preclinical Services.* For the three months ended September 24, 2005, operating income for our Preclinical Services segment was $19.2 million, an increase of $9.4 million, or 95.7%, from $9.8 million for the three months ended September 25, 2004. Operating income as a percentage of net sales decreased to 15.7%, compared to 17.0% of net sales for the three months ended September 25, 2004. The decrease in operating income for the three months ended September 24, 2005 was primarily due to Inveresk related amortization expense of 8.3% of net sales, partially offset by improved capacity utilization.

*Clinical Services.* For the three months ended September 24, 2005, operating income for our Clinical Services segment was $3.1 million. Operating income as a percentage of net sales was 9.5% for the three months ended September 24, 2005. The operating income as a percentage of net sales includes the Inveresk related amortization expense of 9.2% of net sales.

***Interest Expense.*** Interest expense for the three months ended September 24, 2005 was $4.8 million, compared to $2.1 million for the three months ended September 25, 2004. The $2.7 million increase was primarily due to the increased borrowing as a result of the Inveresk acquisition.

***Income Taxes.*** Income tax expense for the three months ended September 24, 2005 was $12.6 million, a decrease of $3.2 million compared to $15.8 million for the three months ended September 25, 2004. Our effective tax rate for the three months ended September 24, 2005 was 27.85%. The effective tax rate for the three months ended September 25, 2004 was 37.5%. The decrease in the effective tax rate was due primarily to the acquisition of Inveresk which increased the percentage of income from foreign operations which have lower effective tax rates.

***Net Income.*** Net income for the three months ended September 24, 2005 was $32.1 million, an increase of $6.3 million from $25.8 million for the three months ended September 25, 2004.

**Nine Months Ended September 24, 2005 Compared to Nine Months Ended September 25, 2004**

***Net Sales.*** Net sales for the nine months ended September 24, 2005 were $831.1 million, an increase of $302.2 million, or 57.1%, from $528.9 million for the nine months ended September 25, 2004.

*Research Models and Services.* For the nine months ended September 24, 2005, net sales for our RMS segment were $377.6 million, an increase of $19.9 million, or 5.6%, from $357.7 million for the nine months ended September 25, 2004. RMS global prices increased in a range up to 5% with the weighted average increase approximately 3%. Increased volume of both models and services added approximately 2% to the net sales increase. Favorable foreign currency translation contributed approximately 1% to our net sales gain. The RMS sales increase was driven by higher spending on basic research by pharmaceutical and biotechnology companies, which drove greater demand for our products and services, partially offset by the timing of large model shipments and lower transgenic services sales.



*Preclinical Services.* For the nine months ended September 24, 2005, net sales for our Preclinical Services segment were $355.8 million, an increase of $184.6 million, or 107.8%, compared to $171.2 million for the nine months ended September 25, 2004. The increase was primarily due to the acquisition of Inveresk and to increased customer demand for toxicology and other preclinical services, partially offset by reduced demand for our interventional and surgical services. Our preclinical services business benefited from increased customer demand, reflecting increased drug development efforts and customers outsourcing. Foreign currency essentially had no impact on our sales growth.

*Clinical Services.* In the fourth quarter of 2004, we entered the clinical services business with the acquisition of Inveresk. For the nine months ended September 24, 2005, net sales for our Clinical Services segment were $97.7 million.

***Cost of Products Sold and Services Provided.*** Cost of products sold and services provided for the nine months ended September 24, 2005 was $507.9 million, an increase of $191.9 million, or 60.7%, from $316.0 million for the nine months ended September 25, 2004. Cost of products sold and services provided for the nine months ended September 24, 2005 was 61.1% of net sales, compared to 59.8% for the nine months ended September 25, 2004 due to increased costs in the RMS segment and the mix of more Preclinical and Clinical service sales.

*Research Models and Services.* Cost of products sold and services provided for RMS for the nine months ended September 24, 2005 was $213.2 million, an increase of $13.5 million, or 6.8%, compared to $199.7 million for the nine months ended September 25, 2004. Cost of products sold and services provided as a percent of net sales for the nine months ended September 24, 2005 was 56.5% compared to the nine months ended September 25, 2004 at 55.8% of net sales. Lower transgenic services and European research model sales along with higher fuel costs adversely effected the cost of products sold and services provided as a percentage of sales.

*Preclinical Services.* Cost of products sold and services provided for the Preclinical Services segment for the nine months ended September 24, 2005 was $229.7 million, an increase of $113.4 million, or 97.5%, compared to $116.3 million for the nine months ended September 25, 2004. Cost of products sold and services provided as a percentage of net sales was 64.6% for the nine months ended September 24, 2005, compared to 67.9% for the nine months ended September 25, 2004. The decrease in cost of products sold and services provided as a percentage of net sales was primarily due to improved capacity utilization resulting from the increased sales of services.

*Clinical Services.* Cost of products sold and services provided for the Clinical Services segment for the nine months ended September 24, 2005 was $65.0 million. Cost of products sold and services provided as a percentage of net sales was 66.5%.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses for the nine months ended September 24, 2005 were $135.4 million, an increase of $53.2 million, or 64.9%, from $82.2 million for the nine months ended September 25, 2004. Selling, general and administrative expenses for the nine months ended September 24, 2005 were 16.3% of net sales compared to 15.5% of net sales for the nine months ended September 25, 2004. The increase was due primarily to compensation charges for Inveresk's stock options and increased compensation expense recorded for stock awards which combined total $12.7 million for the nine months ended September 24, 2005.

*Research Models and Services.* Selling, general and administrative expenses for RMS for the nine months ended September 24, 2005 were $42.1 million, an increase of $2.1 million, or 5.4%, compared to $40.0 million for the nine months ended September 25, 2004. Selling, general and administrative expenses remained flat as a percentage of sales at 11.2% for the nine months ended September 24, 2005 and the nine months ended September 25, 2004 due to our continued ability to manage costs in line with our sales increase.

*Preclinical Services.* Selling, general and administrative expenses for the Preclinical Services segment for the nine months ended September 24, 2005 were $42.8 million, an increase of $20.2 million, or 89.0%, compared to $22.6 million for the nine months ended September 25, 2004. Selling, general and administrative expenses for the nine months ended September 24, 2005 decreased to 12.0% of net sales, compared to 13.2% of net sales for the nine months ended September 25, 2004 due to greater economies of scale.

*Clinical Services.* Selling, general and administrative expenses for the Clinical Services segment for the nine months ended September 24, 2005 were $17.9 million. Selling, general and administrative expenses for the Clinical Services segment were 18.3% of net sales.

*Unallocated Corporate Overhead.* Unallocated corporate overhead, which consists of various corporate expenses including those associated with pension, executive salaries, stock based compensation and departments such as corporate accounting, legal and investor relations, was $32.7 million for the nine months ended September 24, 2005, compared to $19.5 million for the nine months ended September 25, 2004. The increase in unallocated corporate overhead for the nine months ended September 24, 2005 was due primarily to increased restricted stock expense and stock-based compensation relating to the acquisition of Inveresk.

***Amortization of Other Intangibles.*** Amortization of other intangibles for the nine months ended September 24, 2005 was $43.0 million, an increase of $39.4 million, from $3.6 million for the nine months ended September 25, 2004. The increased amortization was due to the acquisition of Inveresk.

*Preclinical Services.* For the nine months ended September 24, 2005, amortization of other intangibles for our Preclinical Services segment was $33.8 million, an increase of $30.3 million from $3.5 million for the nine months ended September 25, 2004. The increase in amortization of other intangibles was due to the acquisition of Inveresk.

*Clinical Services.* For the nine months ended September 24, 2005, amortization of other intangibles for our Clinical Services segment was $9.0 million, related to the acquisition of Inveresk.

***Operating Income.*** Operating income for the nine months ended September 24, 2005 was $144.7 million, an increase of $17.6 million, or 13.9%, from $127.1 million for the nine months ended September 25, 2004. Operating income for the nine months ended September 24, 2005 was 17.4% of net sales, compared to 24.0% of net sales for the nine months ended September 25, 2004. The decrease as a percent of sales was due primarily to Inveresk related amortization of $39.7 million and Inveresk stock based compensation charge of $7.1 million.

*Research Models and Services.* For the nine months ended September 24, 2005, operating income for our RMS segment was $122.1 million, an increase of $4.3 million, or 3.6%, from $117.8 million for the nine months ended September 25, 2004. Operating income as a percentage of net sales for the nine months ended September 24, 2005 was 32.3%, compared to 32.9% for the nine months ended September 25, 2004. The decrease in operating income as a percentage of net sales was primarily due to higher cost of products sold and services provided.

*Preclinical Services.* For the nine months ended September 24, 2005, operating income for our Preclinical Services segment was $49.5 million, an increase of $20.7 million, or 71.8%, from $28.8 million for the nine months ended September 25, 2004. Operating income as a percentage of net sales decreased to 13.9%, compared to 16.8% of net sales for the nine months ended September 25, 2004. The decrease in operating income as a percentage of net sales for the nine months ended September 24, 2005 was primarily due to Inveresk related amortization expense of 8.6% of net sales, partially offset by improved capacity utilization.



*Clinical Services.* For the nine months ended September 24, 2005, operating income for our Clinical Services segment was $5.9 million. Operating income as a percentage of net sales was 6.0% for the nine months ended September 24, 2005. The operating income as a percentage of net sales includes the Inveresk related amortization of 9.2% of net sales.

***Interest Expense.*** Interest expense for the nine months ended September 24, 2005 was $17.7 million, compared to $6.3 million for the nine months ended September 25, 2004. The $11.4 million increase was primarily due to the increased borrowing as a result of the Inveresk acquisition.

***Income Taxes.*** Income tax expense for the nine months ended September 24, 2005 was $35.9 million, a decrease of $16.1 million compared to $52.0 million for the nine months ended September 25, 2004. Our effective tax rate for the nine months ended September 24, 2005 was 27.85%. Excluding charges associated with the deferred tax write-off and the benefit from the reversal of the valuation allowance, the effective tax rate for the nine months ended September 25, 2004 was 37.5%. The decrease in the effective tax rate was due primarily to the acquisition of Inveresk which increased the percentage of income from foreign operations which have lower effective tax rates.

***Net Income.*** Net income for the nine months ended September 24, 2005 was $91.6 million, an increase of $21.9 million from $69.7 million for the nine months ended September 25, 2004.

**Backlog**

Our backlog for Preclinical Services and Clinical Services was $431.2 million at September 24, 2005. We do not report backlog for the RMS segment because turnaround time from order placement to fulfillment, both for products and services, is rapid. Our preclinical and clinical services are performed over varying times, from a short period of time to extended periods of time, which may be as long as several years. We maintain an order backlog for these segments to track anticipated revenue from studies and projects that either have not started, but are anticipated to begin in the near future, or are in process and have not been completed. We only recognize a study or project in backlog after we have received written evidence of a customer’s intention to proceed with a study or project. Cancelled studies or projects are removed from backlog.

We believe our aggregate backlog as of any date is not necessarily an indicator of our future results for a variety of reasons. First, studies vary in duration. For instance, some studies that are included in 2005 backlog may be completed in the same year, while others may be completed in later years. Second, the scope of studies may change, which may either increase or decrease their value. Third, studies included in backlog may be subject to bonus or penalty payments. Fourth, studies may be terminated or delayed at any time by the client or regulatory authorities. Terminations or delays can result from a number of reasons. Delayed contracts remain in our backlog until a determination of whether to continue, modify or cancel the study has been made.

**Liquidity and Capital Resources**

The following discussion analyzes liquidity and capital resources by operating, investing and financing activities as presented in our condensed consolidated statements of cash flows.

Our principal sources of liquidity have been our cash flow from operations, our revolving line of credit arrangements and proceeds from our debt and equity offerings.



On July 27, 2005 the Company entered into a credit agreement ($50 million credit agreement). The $50 million credit agreement provides for a $50 million term loan facility which matures on July 27, 2007 and can be extended for an additional 7 years. The interest rates applicable to loans under the $50 million credit agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½ %) or the LIBOR rate plus 0.75%. The $50 million credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. A debt covenant was waived through 2005. If the Company chooses to extend the term loan for an additional 7 years, the applicable interest rate after the extension date is equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½ %) plus 0.25% or the LIBOR rate plus 1.25%.

Effective May 6, 2005, the Company amended its credit agreement (the $550 million credit agreement), entered into during the fourth quarter of 2004, to reduce the interest rate by 0.50% and modify certain restrictive covenants. The $550 million credit agreement provides for a $400 million term loan facility and a $150 million revolving facility. The term loan facility matures in 20 equal, quarterly installments with the first installment payable December 31, 2004 and the last installment due September 30, 2009. The revolver facility matures on October 15, 2009 and requires no scheduled prepayment before that date. The interest rates applicable to term loans and revolving loans under the credit agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus ½%) or the adjusted LIBOR rate plus an interest rate margin based upon the Company's leverage ratio which was 1% as of June 25, 2005. Based on the leverage ratio of the Company, the margin range for LIBOR based loans is 0.75% to 1.25%. The credit agreement includes certain customary representations and warranties, negative and affirmative covenants and events of default. A debt covenant was waived through 2005. The Company was in compliance with its debt covenants as of September 24, 2005. The Company had $4,988 outstanding under letters of credit as of September 24, 2005 and December 25, 2004, respectively.

During the second quarter of 2005, the Company converted all of its $185 million 3.5% senior convertible debentures due February 1, 2022 into 4,759,424 shares of common stock.

Cash and cash equivalents totaled $169.3 million at September 24, 2005, compared to $207.6 million at December 25, 2004.

Net cash provided by operating activities for the nine months ended September 24, 2005 and September 25, 2004 was $151.1 million and $110.2 million, respectively. The increase in cash provided by operations was primarily a result of increased earnings before depreciation and amortization. Our days sales outstanding decreased to 38 days as of September 24, 2005 from 47 days as of September 25, 2004 primarily due to the acquisition of Inveresk, but increased from 32 days as of December 25, 2004 mainly due to reduced deferred income.

Net cash used in investing activities for the nine months ended September 24, 2005 and September 25, 2004 was $75.5 million and $39.9 million, respectively. For the nine months ended September 24, 2005, we used $70.0 million for capital expenditures. This compared to the nine months ended September 25, 2004 during which we paid $22.0 million for capital expenditures and $17.0 million for the acquisition of River Valley Farms. In the nine months ended September 24, 2005, we made capital expenditures in RMS of $17.4 million, Preclinical Services of $52.2 million and Clinical Services of $0.4 million. During the third quarter, we purchased for approximately $27 million a 400,000 square foot facility in Massachusetts, which we expect to phase into production beginning in mid-2006. Our Preclinical business continues to evaluate various options for further expansion in the western United States. We anticipate that future capital expenditures will be funded by cash provided by operating activities and existing credit facilities. For fiscal 2005, we projected capital expenditures of $110 million.



Net cash (used in) and provided by financing activities for the nine months ended September 24, 2005 and September 25, 2004 was $(102.3) million and $8.1 million, respectively. Proceeds from exercises of employee stock options amounted to $25.0 million and $10.7 million for the nine months ended September 24, 2005 and September 25, 2004, respectively. During the nine months ended September 24, 2005, we repaid $150.3 million in debt primarily under our $550 million credit facility. During the first quarter of 2004, we borrowed and repaid $94.0 million as part of our European reorganization.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements during the three months ended September 24, 2005.

**Recently Issued Accounting Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Shared-Based Payment," which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. This revised standard will be effective for us in the first quarter of fiscal year 2006.

As permitted by SFAS No. 123, we currently account for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of the modified prospective adoption of SFAS No. 123(R) cannot be estimated at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Certain of our financial instruments are subject to market risks, including interest rate risk and foreign currency exchange rates. We generally do not use financial instruments for trading or other speculative purposes.

***Interest Rate Risk***

The fair value of our marketable securities is subject to interest rate risk and will fall in value if market interest rates increase. If market rates were to increase immediately and uniformly by 100 basis points from levels at September 24, 2005, then the fair value of the portfolio would decline by approximately $0.1 million.

We have entered into two credit agreements, the $550 million credit agreement and the $50 million credit agreement. Our primary interest rate exposure results from changes in LIBOR or the base rates which are used to determine the applicable interest rates under our term loans the $550 million credit agreement and in the $50 million agreement and our revolving credit facility. Our potential loss over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate would be approximately $6 million on a pre-tax basis. The book value of our debt approximates fair value.

During the second quarter of 2005, the Company converted all of its $185 million 3.5% senior convertible debentures due February 1, 2022 into 4,759,424 shares of common stock.



**Foreign Currency Exchange Rate Risk**

We operate on a global basis and has exposure to some foreign currency exchange rate fluctuations for its earnings and cash flows. This risk is mitigated by the fact that various foreign operations are principally conducted in their respective local currencies. A portion of our foreign operations' revenue is denominated in U.S. dollars, with the costs accounted for in their local currencies. We attempt to minimize its exposure by using certain financial instruments, for purposes other than trading, in accordance with our overall risk management and our hedge policy. In accordance with our hedge policy, we designate such transactions as hedges as set forth in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

During the third quarter, we had foreign exchange contracts, principally to hedge the impact of currency fluctuations on customer transactions and certain balance sheet items. Some of these contracts expired during the quarter. At September 24, 2005, the contract amount outstanding was approximately $9 million. We recorded a cumulative gain after tax of $0.4 million in accumulated other comprehensive income on the outstanding contract.

**Item 4. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures**

Based on their evaluation, required by paragraph (b) of Rules 13a-15 or 15d-15, promulgated by the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act are effective as of September 24, 2005 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continually are in the process of further reviewing and documenting our disclosure controls and procedures, and our internal control over financial reporting, and accordingly may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

**(b) Changes in Internal Controls**

There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of the Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended September 24, 2005 that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.



**Part II. Other Information**

**Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

The following table provides information relating to the Company's purchases of shares of its common stock during the third quarter of 2005.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 27, 2005 - August 20, 2005 | — | $ — | — | $ 50,000,000 |
| August 21, 2005 - September 24, 2005 | 66,175 | 47.04 | 56,000 | 47,397,210 |

On July 27, 2005, the Board of Directors authorized a share repurchase program to acquire up to $50.0 million of common stock. In order to facilitate these share repurchases, the Company has entered into a Rule 10b5-1 Purchase Plan. During the three months ended September 24, 2005, the Company repurchased 56,000 shares of common stock for approximately $2.6 million. The timing and amount of any future repurchases will depend on market conditions and corporate considerations. Additionally, the Company's 2000 Incentive Plan permits the netting of common stock upon vesting of restricted stock awards in order to satisfy individual tax withholding requirements. Accordingly, through September 24, 2005, the Company acquired 10,175 shares as a

result of such withholdings. On October 26, 2005, the Board of Directors authorized increasing the share repurchase program by $50.0 million to a total of $100.0 million.

**Item 6. Exhibits**

(a) **Exhibits.**

| | |
|---|---|
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith. |
| 31.2 | Certification of the Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith. |
| 32.1 | Certification of the Principal Executive Officer and Principal Financial Officer required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act. Filed herewith. |



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHARLES RIVER LABORATORIES INTERNATIONAL, INC.

October 28, 2005

/s/ JAMES C. FOSTER
James C. Foster
*Chairman, Chief Executive Officer and President*

October 28, 2005

/s/ THOMAS F. ACKERMAN
Thomas F. Ackerman
*Executive Vice President and Chief Financial Officer*

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**
**AND RULE 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934**

I, James C. Foster, Chief Executive Officer of Charles River Laboratories International, Inc. (the Company) certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and proceeds to be designed under our new supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2005

/s/ JAMES C. FOSTER
James C. Foster
*Chairman, Chief Executive Officer and President*
*Charles River Laboratories International, Inc.*

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**
**AND RULE 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934**

I, Thomas F. Ackerman, Executive Vice President and Chief Financial Officer of Charles River Laboratories International, Inc. (the Company) certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2005

/s/ THOMAS F. ACKERMAN
Thomas F. Ackerman
*Executive Vice President and Chief Financial Officer*
*Charles River Laboratories International, Inc.*

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q for the period ended September 24, 2005 of Charles River Laboratories International, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James C. Foster, the Chairman, Chief Executive Officer and President, and Thomas F. Ackerman, Executive Vice President and Chief Financial Officer, each hereby certifies, to the best of his knowledge and pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 28, 2005

/s/ JAMES C. FOSTER
James C. Foster
*Chairman, Chief Executive Officer & President*
*Charles River Laboratories International, Inc.*

Dated: October 28, 2005

/s/ THOMAS F. ACKERMAN
Thomas F. Ackerman
*Executive Vice President & Chief Financial Officer*
*Charles River Laboratories International, Inc.*